Chapter 3

What Is the Price of Education?

"If you think education is expensive, you should try ignorance."

— Dr. Dolf de Roos

I am occasionally asked, "Are you saying that a person does not need to go to school?" My answer is an emphatic, "No, I am *not* saying that. Education is more important today than ever before. What I am saying is that the educational system is behind the times. It is an old Industrial Age system that is trying to cope with the Information Age… and unfortunately, it is not doing too good a job of coping."

According to economic historians, in 1989, when the Berlin Wall came down and the World Wide Web went up, the Industrial Age ended and the Information Age officially began. The following is a simple diagram of this change:

1989

Industrial Age	Information Age
Job security	Financial security
Job for life	Free agents
One profession	Many professions
Defined benefit pension plans (employer responsible)	Defined cotribution pension plans—401(k) (employee resposible)
Social Security certain	Social Security uncertain
Medicare certain	Medicare uncertai
Seniority an	

asset	Seniroity a liability
Pay raises based upon tenure	Pay raises a liability since many employers are looking for youger workers with more current technical skills willing to work of less

Why Job Security Is Not a Problem

My mom and dad grew up during the Great Depression. That historical event seemed to have affected their mental and emotional outlook. That is why they often emphasized the importance of "Get good grades so you can get a safe, secure job."

If you look at the economy today, the problem is too many jobs. Ask any employer and they will tell you they are desperately looking for good employees.

Today, the issue is financial security, not job security. In large part, this is due to the shift of paying for retirement from the employer to the employee, the shift from Industrial Age pension plans, defined benefit plans, to Information Age plans, defined contribution plans. There are three major problems with today's defined contribution pension plans. One is that they are to be funded by the employee and many employees are not putting any money into their plans because they need the money to live on. Two is that the plans are indexed to the stock market, which means if the stock market is high, the pension plan is high. If the market should crash, as it has in the last couple of years, so will the employee's pension plan. And three is that a defined contribution pension plan can run out just when the retiree needs it most.

Let's say the retiree is eighty-five years old and their plan is depleted. The former employer has no obligation to the retiree. In contrast, with the defined benefit plan of the Industrial Age, the employer would have supported the employee until the employee passed on regardless of age.

My biggest concern is over government Social Security programs and Medicare programs. You know these programs are in trouble when the politicians are making campaign promises to "save" them. Of the two, it is the threat to the Medicare system in America that concerns me most. As we get older, our living costs may go down, but our medical expenses skyrocket. One catastrophic illness could cost more than the person's home. Today, a growing reason behind many personal bankruptcies is not financial mismanagement but catastrophic illnesses. A friend of a friend of mine was recently injured in an auto accident. He was the sole breadwinner in the home, he had inadequate medical insurance, and had to sell everything he owned. To make matters worse, his youngest daughter was diagnosed with leukemia, and the family is now seeking charitable donations and assistance from anyone who will help.

What Is Lag Time?

These are just a few of the reasons why I say that we need more education in the Information Age, rather than the same old education we have been receiving. In the world of business, the two industries with the longest *lag times* are the education industry and the construction industry. Lag time means the difference in time between a new idea's conception and its acceptance by the industry. In the computer industry, the lag time is about a year. In the aerospace industry, the lag time is two years. That means it takes only two years for a new idea to be conceived and then adopted by the industry. In the education and construction industries, the lag time is approximately fifty years. For people hoping the educational system will catch up to the idea that the Industrial Age is over, I doubt they will realize this until the year 2040… which is one reason why so many parents are pulling their kids out of school and choosing to home-school them.

Not only can industries be in lag, but individuals can also be in lag. In the Industrial Age, it was Einstein's $E = mc^2$ that was the formula of the era. During the Industrial Age, there were two superpowers in charge and people lived in fear of nuclear war between them. In the Information Age, the World Wide Web has left no one in charge. Moore's Law is now in charge. And Moore's Law states that information and technology are advancing quickly. Today's interpretation of Moore's Law is that information and technology are doubling every eighteen months, which means that each of us needs to double our information every eighteen months, or risk falling behind. That is why in the Information Age, *what you learn* is not as important as *how fast you learn*. Today it is risky to receive advice from anyone with old information… and in the Information Age, old can be only eighteen months. You don't want to be taking advice from someone who is lagging… in other words someone with old answers. Old answers may work on the millionaire trivia game shows but they will not work in the real world.

So What Kind of Education Do We Need in the Information Age?

In many ways, both of my dads were great educators. As I have stated in earlier books, they taught what they thought was important, but they did not teach the same things. Below is a list I created that summarizes the education I received from both dads. Although there are many different types of education, for example physical education, music and art education, spiritual education, which are all important, the following are the fundamental educational studies that are required for minimal security in the Information Age.

1. *Scholastic Education*: The education that teaches you how to read, write, and do arithmetic.
2. *Professional Education*: The education that teaches you the skill to work for money, such as learning to be a doctor, lawyer, plumber, secretary, electrician, teacher.
3. *Financial Education*: The education that teaches you how to have money work hard for you.

Obviously, all three educational focuses are vital. If one is not able to read, write, or do mathematics, life in general is very hard. Unfortunately, many students are leaving school today not well skilled in these fundamentals. On May 7, 2000, the *Arizona Republic* ran an article that began with the headline, "L.A. Schools to Hold Back Thousands." Paraphrasing, the article made the following points:

• The nation's second largest school system backed down from plans to flunk huge numbers of students this year.
• Los Angeles Unified School District officials originally expected to hold back as many as one third of the system's 711,000 students, or 237,000, but the promotion guidelines were relaxed, out of concern that mass flunkings could cripple schools.

That is correct. They needed to flunk over a quarter of a million students because they could not attain basic reading, writing, and arithmetic standards.

Officials passed the students because the flunkings would cripple the schools. I wonder what this will mean to a student who is crippled scholastically for life? This is an example of an industry in lag. Obviously, students have changed but the school system continues with its traditional ways of attempting to educate. Personally, I found school boring, irrelevant, and I was not motivated by the idea that I needed good grades for job security, as my parents had been motivated. Scholastic education is more important than ever before, but our educational system fails to keep pace with the times, so a student's scholastic education is sacrificed while we wait for the system to change.

My real dad was at one time the head of the teachers union in Hawaii. Because of him, I understand why the union is important to the teachers and I do empathize with many of the teachers' concerns. I also empathize with the students and am concerned about the long-term impact of them not receiving an adequate education at this period of time when education is more vital than ever.

When you look at professional education, again, its importance is striking. For example, a person with only a high school diploma may earn $10 per hour, right out of school. If that same person should go to electrician's school, their hourly rate could easily jump to $50 or more. When you multiply that $40 per hour difference by eight hours a day, five days a week, four weeks a month, twelve months a year, over forty years, the investment in professional education is one of the best returns on time and money anyone can make. When you understand that most medical doctors invest an extra ten to fifteen years beyond high school to become a doctor, it is no wonder they feel they deserve a little bit more in pay than the rest of us.

Regardless if you do well in school or not, and regardless if you go on to become a doctor or janitor, we all need some basic financial education. Why? Because regardless of what we do or who we become, we all handle money. I have often wondered why we do not teach much about money in school. I have often wondered why the system focuses so much on grades and report cards, when in the real world, my banker has never asked me to submit my report card.

I often asked a few educators this question and I have heard responses such as, "We do teach economics in school." Or, "Many of our students learn to invest in the stock market." Or, "We offer a junior business program for students who are interested in business." Again, I realize that the people in the system are teaching what they know and doing the best they can. Yet, if you ask most bankers, they will tell you that they are looking for more than a stock portfolio or the student's grades in economics.

As my friend Dolf de Roos says, "If you think education is expensive, you should try ignorance." And for most people, highly educated or not, it is *not* what they know that is costing them money, *it is what they do not know that is most expensive*. Let us take just one subject as an example of lack of education… and that subject is taxes. Most of us realize that taxes are our single largest expense. We are taxed when we earn, spend, save, invest, and die. Now, compare the difference in taxes an employee pays as compared to what a business owner pays. The dollar amount over forty years is staggering. One of the reasons so many people who go to school, get good grades, and get a good job struggle financially, is simply because most of their money goes to the government—the same government that educates us, or fails to educate us. And taxes are just one small subject in the world of financial education.

Now compute the cost of what happens to a person who cannot read a financial statement, much less know what a financial statement is. Or what happens to a person who does not know the difference between an asset or a liability; good debt and bad debt; debt versus equity; or the differences between passive income, earned income, or portfolio income. It is the lack of this basic financial education that undermines a person's basic financial intelligence. It is this lack of financial intelligence that causes many people to work hard professionally, often earning a lot of money, but fail to get ahead financially. They may have job security, but many never find financial security.

My rich dad often said, "Financial intelligence is not how much money you make, but how much money you keep, how hard that money works for you, and how many generations you pass that money on to." One of the main reasons that poor and middle-class kids start with a financial handicap in life is that their parents pass nothing on to them financially. It is hard to include in your will your job and your company pension plan. I know, because my parents left very little money for their kids to move forward on, while rich dad gave his children millions of dollars in financial head starts. It is estimated that when John Kennedy Jr. died, he passed on hundreds of millions of dollars to each of his sister, Caroline's, two children. Take a moment to think how your life might have been different if you had a hundred-million-dollar head start? What could you do with your life rather than get up and go to work?

The Basic Financial Education

When people ask me, "What do I need to know financially?" I always reply, "Find out from your banker what is important to him or her and you will know what is important financially." And that is why one of the best mistakes I ever made was to have bad grades in high school. If I had not had those bad grades in high school, I might never have realized that my banker does not think my grades are important. My banker only asks me for my financial statement and, as I said, most students leave school not knowing what a financial statement is.

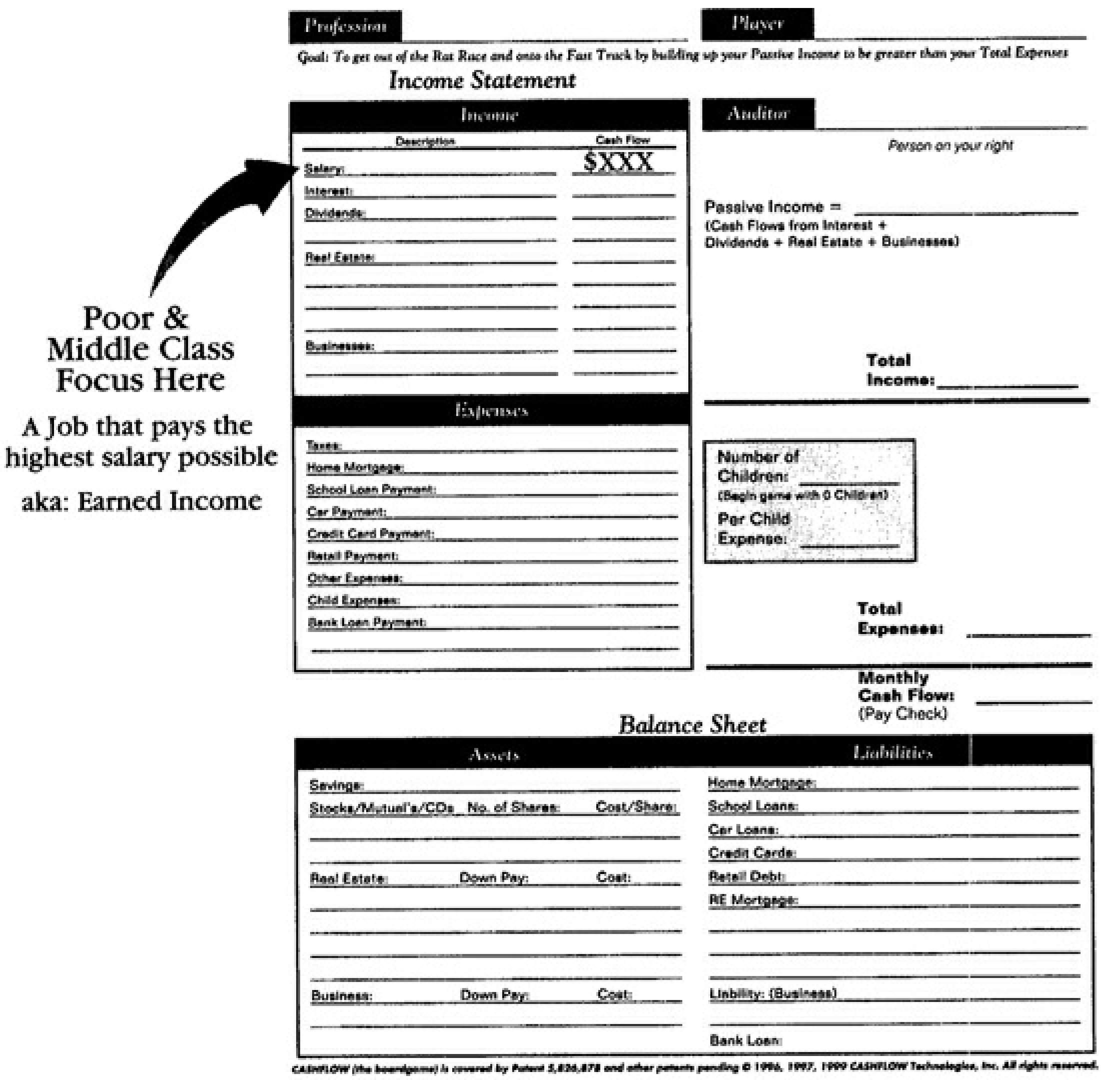
Most people simply fill out a financial statement the bank provides them, instead of submitting their own prepared financial statements. And that is why most people think that borrowing money means *begging* for money, rather than showing the banker why he or she should *lend* you money. Always remember that a banker's job is to lend you money, not turn you down. Bankers don't make money unless they lend you money. That is why when a banker turns you down, it is like a teacher saying to you, "You have failing grades." Instead of getting angry at the banker; it is really a good time to ask him or her what you are *not* doing correctly and what you can do to improve your financial statement… which is your real report card once you grow up and leave school.

What Is Important on Your Financial Statement?

Different people look for different things on a financial statement. As I have said in my other books, a financial statement is like reading the story of a person's life. A financial statement also shows the reader how financially smart or financially unintelligent a person is with their money. The following are some of the things my rich dad taught me to look for on financial statements. The financial statement used is the financial statement from my board game CASHFLOW 101, which I invented to teach financial literacy, as well as the basics of investing.

The Three Types of Income

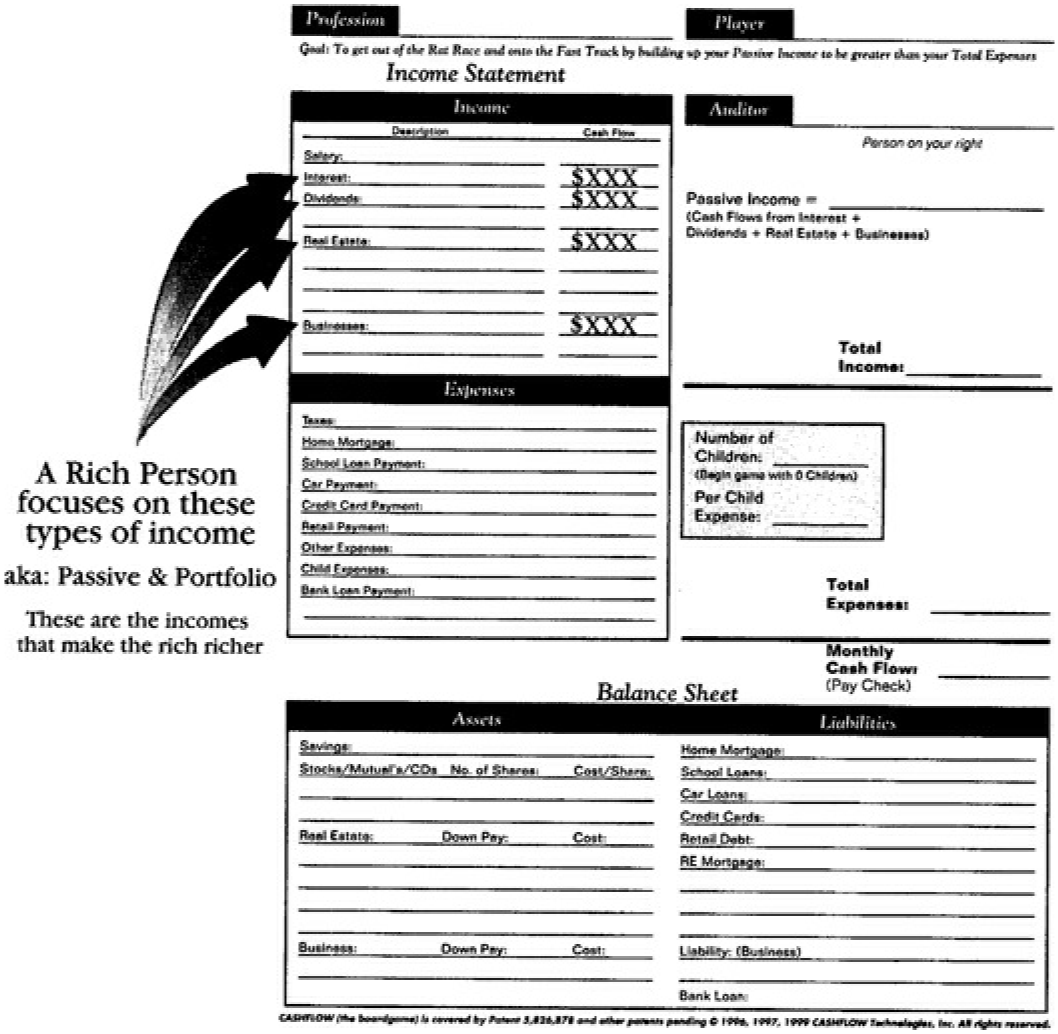
For those of you who have read my other books, you may recall that my rich dad taught me the importance of the three different types of income. They are *earned, passive*, and *portfolio* income. Today, when I look at a person's or company's financial statement, I can almost immediately tell if the person is going to be rich, poor, or middle-class, just by looking at the income column.


Profession
Player
Goal: To get out of the Rat Race and onto the Fast Track by building up your Passive Income to be greater than your Total Expenses
Income Statement
Income
Description
Cash Flow
Salary: $XXX
Interest:
Dividends:
Real Estate:
Businesses:
Auditor
Person on your right
Passive Income =
(Cash Flows from Interest + Dividends + Real Estate + Businesses)
Total Income:
Poor & Middle Class Focus Here
A Job that pays the highest salary possible
aka: Earned Income
Expenses
Taxes:
Home Mortgage:
School Loan Payment:
Car Payment:
Credit Card Payment:
Retail Payment:
Other Expenses:
Child Expenses:
Bank Loan Payment:
Number of Children:
(Begin game with 0 Children)
Per Child Expense:
Total Expenses:
Monthly Cash Flow:
(Pay Check)
Balance Sheet
Assets
Savings:
Stocks/Mutual's/CDs No. of Shares: Cost/Share:
Real Estate: Down Pay: Cost:
Business: Down Pay: Cost:
Liabilities
Home Mortgage:
School Loans:
Car Loans:
Credit Cards:
Retail Debt:
RE Mortgage:
Liability: (Business)
Bank Loan:
CASHFLOW (the boardgame) is covered by Patent 5,826,878 and other patents pending © 1996, 1997, 1999 CASHFLOW Technologies, Inc. All rights reserved.

This is the financial statement from CASHFLOW 101. It teaches people how financial statments work.

The above financial statement is of someone who manages their money like a poor or middle-class person. The reason is, the only kind of income is earned income, in this case their salary, which is by far the hardest income to get rich on. One reason it's close to impossible is that every time this person gets an *earned* income pay raise, so does the government. Another reason is, if you stop working, in most cases your *earned* income also stops.

The financial statement below is a financial statement of a person who has a good chance of becoming richer and richer. Why? Because this person already has passive income, which is income from real estate, the least taxed income there is, and portfolio income, which is income from paper assets such as stocks, bonds, mutual funds, interest-bearing accounts, and other such investments.



A financial statement of someone who is performing the actions that make a person richer and richer.

The Kennedy kids never needed a job. They never needed a paycheck. Why? Because the earlier Kennedys knew that passive income and portfolio income are the incomes of the rich. The Kennedy children chose to work but it is obvious that they did not need to. If you had a hundred-milliondollar portfolio, the passive income and portfolio income would be more than enough to live the lifestyle of the rich and famous.

One of the reasons the CASHFLOW game is important for anyone serious about becoming a millionaire is because the game teaches people how to convert *earned* income into *passive* and *portfolio* income—the two incomes of the rich. It is virtually impossible to become rich *only* on earned income … and unfortunately, that is what most people are trying to do. One of the reasons so many lottery winners go broke is because they fail to convert earned income into either passive or portfolio income.

But more importantly, the game teaches the players how a financial statement works, which is something that cannot be learned by reading a book or by just playing the game a few times. Since repetition is the way we learn, playing the game repeatedly can assist the players in mastering the technicalities of a financial statement, which is your report card once you leave school. By repeatedly learning how a financial statement really works, the game also reinforces the importance of *passive* income and *portfolio* income, which is the income of the rich. It also teaches the importance of knowing the difference between good debt and bad debt. By repeatedly playing the game, you begin to break up the core conditioning most of us have learned at home and at school, the conditioning of working hard for money. The game trains your brain how to convert *earned income* into *passive income* and *portfolio income*.

Complaints About CASHFLOW, the Game

Let me share with you the three common complaints about the game:

1. *It takes a long time to learn*. I recommend dedicating two four-hour sessions to learn the basics of the entire game. Three hours playing and one hour debriefing the lessons learned with the rest of the players. Players report that the one-hour debriefing session is the best part of playing the game. The players relate the game to their real-life financial challenges. After the two sessions, you are better able to try different financial strategies in order to win the game. The game is much like the game of chess, which means there is not a single formula for winning. Each time the game is played, it will offer you different financial challenges. By solving the different financial challenges each game presents, your financial intelligence increases.

2. *It takes too long to play*. The game does take a long time, especially

when a person first begins to learn. But the length of playing time decreases if the player learns to solve the different challenges the game presents each time. The object of the game is to consistently see if you can complete the game in about an hour. In other words, the length of playing time decreases as your financial intelligence goes up.

3. *It costs too much*. In the U.S., the CASHFLOW 101 board game sells for $195 and comes with a video and three audiocassette tapes. These learning aids add to the total educational package. CASHFLOW 202, the advanced game, which requires the 101 board to be played, sells for $95, and CASHFLOW FOR KIDS (age six and up) sells for $59.95. The prices are high because production is limited and because of the first two complaints. We made the price high because we wanted people to know that this is an educational product created only for people who were serious about their financial education. In a market study, when the game was less expensive, people perceived it as a game of entertainment. We were concerned that people who were not serious about learning would return the game asking for their money back. The price of the games may come down as more people realize that the games are for education and our limited production runs increase. The games are fun once you learn them but much like learning to ride a bicycle, the first stages of learning can be challenging. The electronic versions of CASHFLOW 101 and CASHFLOW FOR KIDS, released in 2003, are also available through our Web site, www.richdad.com. It has taken several years of research and development to create the electronic versions because it was important to us that the elements of cooperative learning and debriefing be included in any electronic versions of the game. Not only are you able to play against computer-generated opponents, with others at the same computer, but we are very excited that you may now also play CASHFLOW 101 with up to four other people from all over the world, online.

So for now, the CASHFLOW games are only for those serious about their financial education. As rich dad said, "There are only two things you can invest. They are time and money." Most people are not willing to invest either time or money in their financial education, and that is why according to the U.S. Department of Health, Education, and Welfare, only 1 out of 100 people will achieve great wealth by age sixty-five.

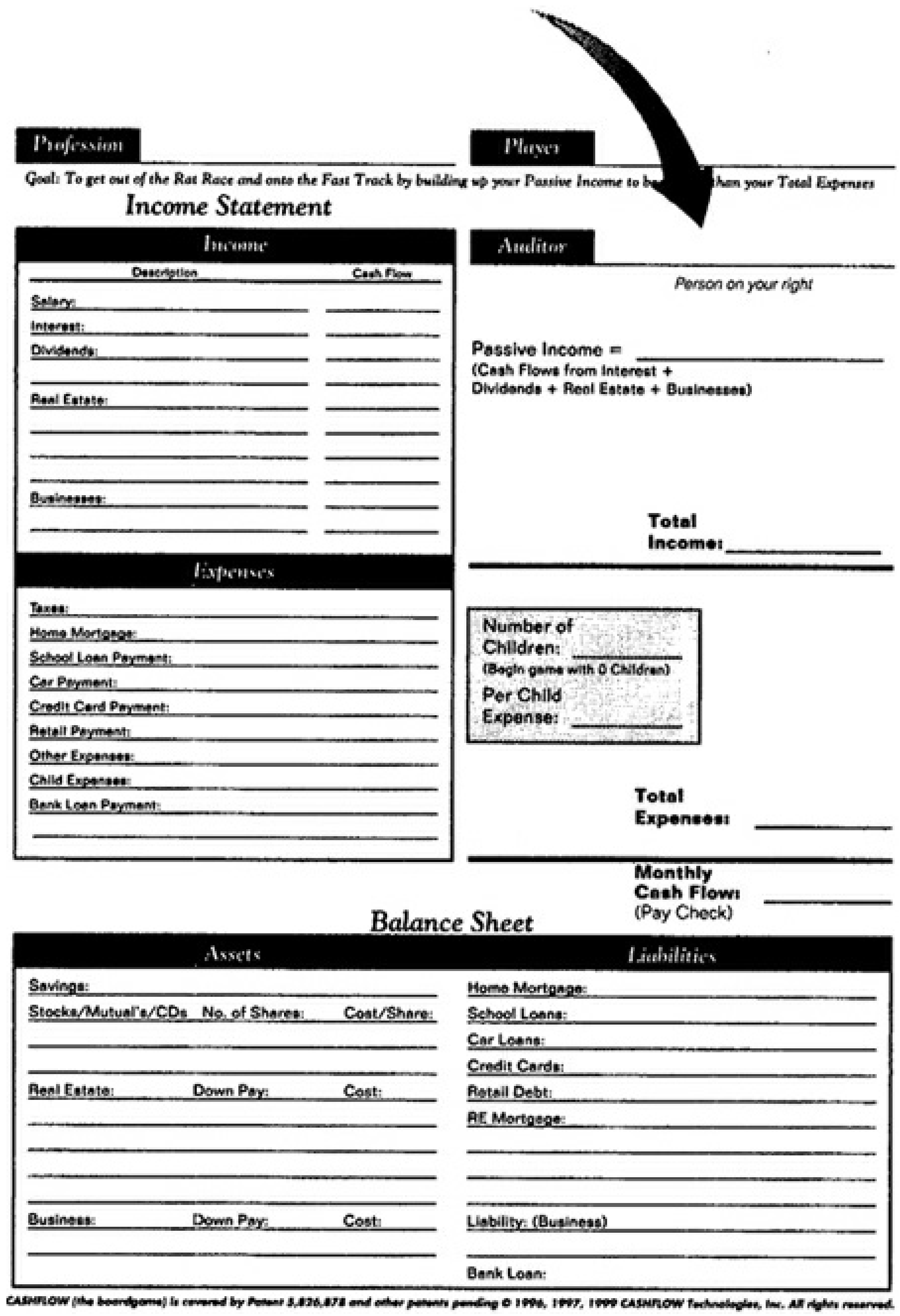
We hope that this 1 out of 100 will change as financial education becomes more available. While we continue to complain that schools do not teach basic financial literacy, we decided we should develop an electronic curriculum for teaching basic financial concepts as a way for us to give back and help get the curriculum into the schools. This curriculum, developed with teachers for teachers, is found at the Web site www.richkidsmartkid.com and has four minigames teaching the difference between assets and liabilities, earned, passive, and portfolio income, good debt and bad debt, and the importance of charity. Teachers and schools around the world can apply through this Web site for a free copy of the electronic version of CASHFLOW FOR KIDS. If our children can learn basic financial concepts at an early age, they will be better prepared for the world they will face as adults and have a better chance for financial success.

Who Grades Your Test?

As stated earlier, one of the important reasons for receiving a report card in school is because the report gives you an indicator on how well you are doing and what you need to correct. By *not* knowing that your financial statement is your report card once you leave school, many people *never* really know how well they are doing financially. Many people fail to maximize their income potential and wind up struggling financially most of their lives. My poor dad, although almost a straight-A student in school, did not really find out he had failed financially until he lost his job at age fifty. The sad part was, although he knew he was in financial trouble at age fifty, he did not know what to do. All he knew was that money was going out faster than it was coming in. That is the price of not knowing how to prepare and read a financial statement and how to self-correct after you experience a financial failure. By playing CASHFLOW in school, children will better understand the importance of their own financial statements, and how to create them when they leave school, their report cards for life.

Again, turning to the financial statement from the board game CASHFLOW on the following page, you notice the line that reads *Auditor*.

Many times, when I have supervised the game being played in a seminar, I notice that the players fail to fill out the line for the auditor. When I ask them why they left it blank, they often respond with, “Is it important?” Or, “I don’t need to have anyone check my work.” At that point, I become more stern, letting them know that the auditor, in this case another player in the game, *is* *one of the most important aspects of the game*. The game wants to reinforce good financial habits, and having your financial statements checked on a regular basis is a financial habit essential for anyone who wants to be a millionaire. In other words, your auditor in many ways is like your teacher in school, who goes over your work on a regular basis, letting you know how you are progressing, and helps you make corrections if necessary. In the electronic version of CASHFLOW 101 the computer serves as each player's auditor, and you will not be able to move forward unless you have adjusted your financial statement correctly after each move.


Profession

Player

Goal: To get out of the Rat Race and onto the Fast Track by building up your Passive Income to b than your Total Expenses

Income Statement

Income

Description | Cash Flow

Salary:

Interest:

Dividends:

Real Estate:

Businesses:

Auditor

Person on your right

Passive Income =
(Cash Flows from Interest + Dividends + Real Estate + Businesses)

Total Income:

Expenses

Taxes:

Home Mortgage:

School Loan Payment:

Car Payment:

Credit Card Payment:

Retail Payment:

Other Expenses:

Child Expenses:

Bank Loan Payment:

Number of Children:
(Begin game with 0 Children)

Per Child Expense:

Total Expenses:

Monthly Cash Flow:
(Pay Check)

Balance Sheet

Assets

Savings:

Stocks/Mutual's/CDs No. of Shares: Cost/Share:

Real Estate: Down Pay: Cost:

Business: Down Pay: Cost:

Liabilities

Home Mortgage:

School Loans:

Car Loans:

Credit Cards:

Retail Debt:

RE Mortgage:

Liability: (Business)

Bank Loan:

Your financial coach aka: your conscience

My wife and I go through this financial auditing process twice a month as a habit. Our accountant comes in, our financial statements and checkbooks come out, and the details of our financial life are reviewed in detail… as I said, twice a month. When we were struggling and short of cash, this process was a painful one. It was like looking at a report card filled with Fs and Ds. But as we learned from our mistakes, corrected, and improved our financial situation, the twice-monthly auditing sessions became fun. It must be like receiving a report card with straight As, an academic pleasure I never knew. When Kim and I first started out together, in 1985, we were looking at financial statements with very little on them. Debt from my past financial disasters was heavy on the liability column and we had nothing in the asset column. It was very unpleasant to look at our financial statements. It was like looking at an X-ray of a cancer patient, only for me, it was financial cancer.

Today my entries in the asset column are substantial. The number of entries in the income column of earned, passive, and portfolio income has increased, and so has the number of zeros behind each number in the income column. Our income from passive and portfolio income is much greater than the expenses in our expense column.

In 1985, we had to work to survive but today we work because we want to work. I doubt if we could have done so without the financial education my rich dad taught me. Without my rich dad's financial education, I would not have known about the importance of a financial statement. I would not have known the difference between earned, passive, and portfolio income. I would not have known the importance of corporations and how to protect my assets and how to minimize taxes. I would not have realized the importance of a twice-monthly audit and why being tested and graded twice a month was essential to becoming a millionaire. That twice-monthly audit is just part of the price. Due to my rich dad's financial education, I became a millionaire without cutting up my credit cards, winning the lottery, or going on a game show.

My Income Column Today

Today, Kim and I have an income column that looks like this, in percentages:

Earned income	10%
Passive income	70%
Portfolio income	20%

A few days ago, a newspaper reporter asked me, "How much money do you make? How much is your paycheck?"

I replied, "Not much. And I would rather not tell you how much my paycheck is. I'll just say that it is probably not as much as your paycheck."

He shook his head and smirked. "Then how can you write a book on money?" He went on to say that he hated writers who wrote about relationships but had no relationships, and writers who wrote about money who had no money. The interview was over and he left.

Now that you are much more financially educated, you may understand why I replied the way I did. First of all, my paycheck is very small. *That is because my paycheck is earned income and earned income is the highest taxed income*. Another reason why my paycheck is small is because the passive income is income from royalties as well as real estate. Portfolio income is from paper assets, which include dividends from corporations, income from real estate investments, and interest.

As you may notice, one of the biggest advantages a little financial education offers is a tremendous amount of control over the amount I pay in taxes, which are our single largest expense.

Professional Income

Another point to notice is that my income today does not come from my professional education. After graduating from high school, I attended the U.S. Merchant Marine Academy, where I trained to be a ship's officer on tankers, freighters, and passenger ships. I also attended a U.S. Navy flight school at Pensacola, Florida, where I trained to be a professional pilot. Today, none of my income is derived from those two professions.

The other point is that a lot of my passive income comes from a subject I failed in school. At the age of fifteen, if you recall, I almost failed my sophomore year because I could not write well. Because of that failure, I improved and today I am better known as an author than as a pilot or a ship's officer. The difference is measured in the millions of dollars. In other words, I have made much more money from my failures than from my successes.

As I stated earlier in this chapter, in the Information Age, many of us will have more than one profession. That is why in the Information Age, the issue is *not what you learned* but *how fast you learn*. Remember Moore's Law, which is interpreted as information doubling every eighteen months. And keep in mind that the number of right answers you knew or how good your grades were in school do not measure your success later in life. Your success is measured by how many answers you *do not know*, how many times you fail, stand up, learn from your mistakes, make corrections without blaming, lying, or justifying, and then move on.

Definition of a Loser

So if you want to find out what is important for your financial report card, simply go see your local banker. Fill out your personal financial statement and hope he or she rejects you. If they don't reject you, simply ask for more money. After they reject you, sit down and ask them what you can do to improve your financial report card. The education you receive could be priceless and life-changing. As I said, if you want to find out what is important in the real world, ask your banker. They look at people's report cards every day.

But the question is, "If bankers know so much, why aren't they rich? Why are they still working for the bank, minding someone else's business?" The answer is found in a subject I covered earlier in this book—Newton's law that states that, "For every action, there is an equal and opposite reaction." The answer is also found in the explanation of why in order to be a good, honest, and successful policeman, a policeman must also be a good crook. Or why every coin has two sides, a bird has two wings, and we have two legs, arms, eyes, and so forth. The reason most bankers are not rich is because they are too conservative. In order to be rich, especially if you start with nothing, you will need to be a good banker as well as a good gambler, and most good bankers are not good gamblers. As rich dad said, "You have to pay twice the price." And to be rich, you have to pay the price of being both a good banker and a good gambler, and most people are neither.

Rich dad said to Mike and me, "The reason most bankers are not rich is because most bankers are not gamblers. And the reason most gamblers are not rich is because most gamblers are not good bankers."

I then asked him, "Are most people one or the other? Either a gambler or a banker?"

To which he replied, "No. Unfortunately, most people are financial losers."

"Losers," I recoiled. "Isn't that a very harsh thing to say about people?"

"I said financial losers," rich dad replied in his defense. "I don't mean to insult anyone. Let me give you the definition of a loser before you think of me as unkind."

"Yes, please give me your definition," I replied, also a little defensively.

"My definition of a loser is someone who cannot afford to lose," said rich dad.

"Someone who cannot afford to lose?" I repeated the statement, doing my best to understand rich dad's definition.

"Let me explain further," said rich clad calmly. "When it comes to money, most adults cannot afford to lose. Many people today live on what I call the 'red line.' As you know from your interest in cars, the car's red line is that point where the engine's rpm's are so high that if you step on the gas any harder, the engine comes apart."

"So every dollar that is coming in as income is going out as an expense," Mike jumped in.

"That's correct," said rich dad. "So they cannot afford to lose because financially they have already lost." Rich dad paused for a bit to read our eyes and then said, "It's very sad. Millions of people all over this country, the richest country in the world, live at their financial red line."

"And," I concluded, "those are often the people who say, 'Investing is risky.' Or, 'What if I lose my money?' People often say such things or cling to their money extra tightly because they know they have already lost the financial battle."

Rich dad nodded. "You see, a true gambler realizes that winning and losing go hand in hand. Professional gamblers do not delude themselves that they can only win. True gamblers know that they too can lose. Gamblers know that they often lose in order to win."

"So that is why, if you want to be rich, you have to be a banker as well as a gambler," I added, beginning to understand more. The idea that a good cop also needs to be a good crook began to make more sense.

"And that is why people who have good grades do not necessarily do well in the real world," said Mike. "Real life is not made up of right answers. Real life is made up of multiple guesses, some of which turn out to be right and many of which wind up being wrong."

Rich dad nodded his head. "And that is why so many of the richest people in the world were often people who made the most mistakes. J. Paul Getty was known for drilling many dry holes in his quest for oil. He was famous for dry holes. But what made him rich was that he finally drilled one that hit one of the biggest oil fields in the world. The same is true for Thomas Edison, the man who reportedly failed 10,000 times before inventing the electric light. The reason I say most people are losers is simply because they live their lives unable to afford even one little failure. To be successful, you must be both a banker and a gambler so you *can afford to lose*, because every gambler knows that *losing* is part of *winning*."

I created my board game CASHFLOW after rich dad's teachings. In the game, you will learn how to be a banker as well as a gambler. Too many people today want to put their money in safe, risk-free investments. I am afraid that many of these people will wind up the big losers in life. While they may never lose, they may also never really win. These are the people who plan on becoming rich by being frugal, safe, living below their means, and cutting up their credit cards. As rich dad said, "You can be rich by being cheap. The problem is, you're still cheap."

How Much Can You Afford to Lose?

One of the reasons so many people play the lottery is because most people can afford to lose a dollar. The reason so many people play the dollar slot machines in the casinos is because they can afford to lose a few dollars. The problem is, for at least 60 percent of the American population, they cannot afford to lose much more than a few dollars. That's because they have already financially lost the game of life. Many people will not find out how badly they have lost until they lose their job or have to stop working due to age or medical disability. Hopefully, they will have family members who can afford to and are willing to take care of them. These are the people who live at their red line of life so deeply buried in bad debt. They are so concerned with survival that they cannot even imagine a life of wealth. We have a chapter called "Take Control of Your Cash Flow" in our book *Rich Dad's CASHFLOW Quadrant* to help these people start with a plan for shedding their bad debt. If followed, the formula will help someone get out of debt within five to seven years. The six simple steps have been reproduced on pages 59–60 in this book for your reference.

These same people also believe that getting rich is a function of luck. At one of my talks, a person asked me this question, "How much does luck play into your finances?" My reply was an answer given to me, but I'm afraid I do not remember the person who gave it to me. So I thank that individual and I apologize for not remembering your name… but I did remember your answer. And the answer is, "The acronym for luck means"

Laboring
Under
Correct
Knowledge

They other day, my wife and I lost $120,000 in a bad, very speculative investment. A close friend was very upset, almost as if it were *his* money. He said to Kim and me, “The two of you are unlucky.” Kim and I did not say much because there is no real reason to speak to someone who lives in fear of losing. We did not tell him that we had also made about a million dollars and had lost only $120,000 in our portfolio. We also did not tell him that we really felt lucky because of two reasons. Reason number one is that we learned a lot more from that $120,000 loss than from the million-dollar win. In other words, we gain more knowledge from our mistakes. The second reason is because we felt lucky that we could afford to lose that much money and not feel bad about it. Back in 1985, we were in the group of people who could not afford to lose anything.